Service Date: August 12, 2004

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * * * *

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| IN THE MATTER of the Application of | ) | UTILITY DIVISION |
| WILDER RESORTS, INC. d/b/a Fairmont | ) | |
| Hot Springs Resort, for authority to increase | ) | Docket No. D2003.10.152 |
| rates and charges for water services | ) | Final Order No. 6522a |

**Final Order**

1. On October 22, 2003, Wilder Resorts, Inc. d/b/a Fairmont Hot Springs Resort ("Fairmont") applied for authority to increase rates and charges for water services. The Commission assigned Docket No. D2003.10.152 to the application. A hearing on Docket D2003.10.152 was held before Commissioner Thomas J. Schneider on April 8, 2004. All data requests, responses thereto and written testimony were admitted into record. The parties stipulated to the issuance of a final order pursuant to ARM 38.2.4802(2). Briefs were submitted by all parties.

2. Accounting Order 6162e provided that Fairmont be allowed to accrue Allowance for Funds Used During Construction at a rate of 9.875% for a period not to exceed two years. In exchange, Fairmont agreed to meter all its customers.

3. After the water system was metered and at least one year of water usage data was collected, Fairmont filed this Docket D2003.10.152 for authority to increase rates and charges for water services.

4. In its filing, Fairmont proposed increasing its present revenue requirement to $136,932 from $79,560, an increase of $57,372 for an overall increase of 72.11%. Fairmont requested a rate base of $152,195, and a return on equity of 10.50% based on a theoretical capital structure of 45% debt, 55% equity. Those proposals and a theoretical Long Term Debt cost results in an overall cost of capital of 10.06%

5. Fairmont stated that its current rates were the result of a negotiation between

the parties and that the present adjusted rates produce a negative 24.321% rate of return.

6. Fairmont Estates Condominium Association (FECA), Fairmont Homeowners Association (FHA), the Montana Consumer Counsel (MCC) and Fairmont RV Park (Fairmont RV) intervened in the docket. The FECA, FHA and MCC filed rebuttal testimony to Fairmont.

7. MCC, in its direct testimony, stated that there was not an original cost established for its investment in the water properties acquired in 1990 and that the plant was purchased and built in the early 1970's. Fairmont has records supporting original cost of any plant acquired after April 1, 1990, but has no records of original cost prior to that date. MCC proposed to eliminate the original cost and depreciation of the original properties estimated by Fairmont from rate base and adjust the working cash component based on its proposed adjustments to operating and maintenance expenses and taxes other than income.

8. MCC proposed three adjustments to Operating and Maintenance. The first adjustment was a decrease to electric charges, the second adjustment was an increase to insurance expense and the third adjustment was to eliminate the proposal by Fairmont for office space expense. MCC stated that it proposed to eliminate the office expense because it is not known and measurable.

9. MCC proposed two adjustments to Depreciation, the first to eliminate the depreciation associated with the rate base adjustment and the second to correct an error by Fairmont.

10. The two tax adjustments proposed by MCC were to adjust the MCC and PSC taxes based on the MCC proposed revenue requirement and the second was to eliminate the income tax expense proposed by Fairmont. MCC stated that the books of Fairmont indicated an operating loss of $11,001 for the test year. If that expense were increased for expenses that were not booked to the water utility, the loss would increase an additional $10,039 without interest expense. Including interest expense of $5,538 (weighted cost of LTD times the company's rate base), the loss carry forward would be $26,578. This would be adequate to offset any tax for at least the next 3 years.

11. MCC proposed an alternative allocated cost of service and rate design comparable to what is presently in place at Mountain Water Company (MW). MW allocates their costs for metered consumption by allocating customer service costs to service charges in proportion to bills rendered, allocates one third of fixed costs including administrative and general expenses less customer service costs to service charge and allocates the remaining two thirds of the fixed costs to the calculation of the commodity rate.

12. MCC also took issue with Special Terms and Conditions #12 which stated that the customer is responsible for maintaining the curb cock and box. In a data response, Fairmont stated that the company owns the curb cock and box. Since the company owns the property, MCC felt it was inappropriate for the customer to incur maintenance expenses associated with the curb cock and box.

13. MCC concluded its testimony by stating that the rates should be increased $37,819 or 47.54%.

14. FHA proposed to offer facts that would lead to a cost responsibility for residential customers that is different from what Fairmont proposed. FHA stated that Fairmont's main customer, the resort itself, used 87.60 % of the water, but proposed to take only 44.3 % of the costs that Fairmont described as "fixed". FHA proposed that the costs of service be allocated according to the amount of water used by each class of customer in the test year except for the Customer Service costs, and that those be based on the number of meters.

15. FHA expressed concern that the Equivalent Dwelling Unit (EDU) method used by Fairmont allocated a large portion of Fairmont's proposed costs according to the size and number of each customer class' connections. FHA stated that the connection did not give the actual amount of water used by a customer, because it did nothing about the time water is actually flowing through the connection, nor did Fairmont account for the effect of any differences in pressure at the service points. FHA stated that the EDU method may have been appropriate if actual usage could not be determined, but in this docket, when actual usage is known, did not apply.

16. FHA stated that all costs except for the Customer Service cost should be allocated based on actual usage, that Fairmont Resort used all but 12% of the water,

and that the bulk of the water system exists to serve that entity. FHA also stated that Fairmont did not even bother to charge for the service until ordered to do so by the PSC.

17. FHA also stated that an amount of $174,708 should be disallowed from plant accounts along with the accumulated depreciation and associated depreciation expense. That was Fairmont's valuation for the amount of plant that was in service prior to its purchase on April 1, 1990.

18. FHA proposed to remove a backhoe from rate base because the utility uses the backhoe for other purposes other than the water utility and does not keep records for the hours of usage, nor is there an avenue in place for reimbursement of the backhoe usage for uses other than by the utility. FHA proposed that the utility should compensate the resort at the rate of $35.00 per hour for documented hours used by Fairmont.

19. FHA proposed to remove a Ford pickup from the rate base for the same reason, and compensate the resort at $0.375 per mile for documented miles used by Fairmont.

20. FHA expressed concern that pieces of the applicant's facilities such as the golf course sprinkler system main headers are parts of the utility water system so they should not be treated as utility property.

21. FHA proposed five adjustments to Operating and Maintenance expense. The adjustments included the elimination of the estimated pump replacement cost, the adjustment for tools and the adjustment for office space and expense. Other adjustments included payments to Wilder Resorts for use of the proposed elimination of the backhoe and pickup.

22. FECA commented that there are inconsistencies between the filed testimony and responses to data requests for meter types. This has no impact on revenue requirement but has a material effect upon the allocation of revenue requirement costs.

23. FECA disagreed with the direct expensing of assets because of Fairmont's contention that the useful life could not be determined. This includes estimating expensing of pumps of $2,000 per year including expense items in O & M that have

no supporting documentation.

24. FECA disagreed with including the total value of the backhoe and pickup in the utility plant account, and believes that the water utility needs to be fairly compensated for use of the equipment by the resort or by prorating the values of the backhoe and pickup based on hours used.

25. FECA agreed that the water utility should pay a portion of Fairmont's office space and equipment expenses, but disagreed with the methodology. FECA stated that the water utility should pay a proportion of actual office space and utilities and that those expenses be tied directly to payroll proportions.

26. FECA questioned the accuracy of meter readings on irrigation meter # 2 and believed it to be incorrect.

27. FECA commented that both the FECA irrigation lines are on 2 inch meters and that this misclassification could potentially over-allocate costs to FECA.

28. FECA proposed a rate design as follows:

| | | |
|---|---|---|
| Residential | $21.61 per month | $0.0000416870 per gallon |
| Chalet | $96.70 per month | $0.0000416870 per gallon |
| Condo | $1,008.12 per month | $0.0000416870 per gallon |
| Convenience Store | $25.42 per month | $0.0000416870 per gallon |
| Resort | $5,877.30 per month | $0.0000416870 per gallon |

29. Fairmont in its rebuttal testimony, disagreed with MCC's recommendation that the original cost of all of its investment in the water plant should be disallowed and provided a feasibility study estimating the original plant costs at $165,750.

30. Fairmont also disagreed with MCC's recommendation that the utility should not be allowed to include office space expense in its cost structure and stated that this disallowance would effectively shift all of that expense on the resort. Fairmont provided a copy of a lease agreement with Healing Springs Massage to whom they lease office space to. The lease is for $450 per month plus 3% of revenue.

31. Fairmont concurred with MCC's depreciation expense adjustment with regard to errors totaling $1,349[1], but continued to disagree about the adjustment with regard

[1] The actual amount of depreciation expense adjustment with regard to errors is $1,299. *See ¶ 56, infra.*

to the original plant.

32. Fairmont agreed with MCC's income tax adjustment with regard to the synchronization of interest and net operating losses and stated that the MCC tax and PSC tax should be adjusted accordingly.

33. Fairmont disagreed with MCC's allocation of the cost of service in a manner identical with MW. Fairmont contended that MW is very different from Fairmont. Fairmont stated that a large portion of MW's customers are on a flat rate and are full – time residences and businesses. Fairmont stated that a large portion of its customers are seasonal, and relying on usage charges to recover fixed costs puts the utility at risk of not recovering those costs. Fairmont also commented that there seems to be a desire to allocate a portion of the fixed costs to commodity.

34. Fairmont restated that the EDU allocation system has been used in the past, and is still used by municipal water and sewer systems.

35. Fairmont disagreed with FECA and FHA that the backhoe and pickup should be excluded for rate making purposes. Fairmont stated that the utility could not function without these assets. Disallowance would again force the resort to absorb 100% of the costs of those assets. Fairmont also disagreed with FHA that the equipment be eliminated and the utility be reimbursed at the time proposed by FHA. Fairmont stated that the usage estimate is unreasonably low and that it is more cost effective to depreciate the equipment than it would be to reimburse the resort for the usage.

36. Fairmont stated that the irrigation lines for FECA are 4" and 6" lines but are reduced prior to the 2 inch meter that is where water usage is measured.

37. Fairmont disagreed with FHA and FECA with regard to the $2,000 yearly pump expense, and commented that the pumps have an uncertain life span and Fairmont would be required to file single issue rate cases to recover costs every time a pump went out. Fairmont estimated that it will be necessary to replace a pump every 3 years.

38. Fairmont agreed with FECA's contention that there was something wrong with the amount of water used in the condo's second irrigation line, and that it should be 91,720 gallons instead of 917,200 gallons.

39. Fairmont concluded its rebuttal by stating that there has been an additional 59.5 hours of utility personnel time expended on the rate case and therefore is an additional $1,169.40 higher. Fairmont also stated that it had learned that its insurance cost for the utility has increased to $16,445.

40. FHA did not have an attorney present. Dan Wheeler appeared as a witness for FHA.

## Commission Analysis

### Capital Structure and Return on Equity

41. Fairmont proposed a theoretical capital structure of 55 % equity and 45 % debt. Fairmont based the cost of debt to be 9.50 %, the most recent estimate from Fairmont's lender. Fairmont based the cost of equity of 10.50 % on the cost of capital last advocated by MCC for a small water utility. This equates to a weighted cost of capital of 10.06 %. MCC, FHA and FECA did not contest the capital structure nor the cost of capital. The Commission finds that the proposed capital structure and rate of returns are reasonable for a small water utility.

### Rate Base

42. Fairmont proposed a rate base of $152,195, consisting of $131,900 net utility plant, $9,900 working cash and $10,395 unamortized rate case expense. MCC, FHA and FECA took issue with that amount for rate base and offered adjustments to the rate base.

43. Fairmont included $174,708 in its computation of rate base for estimated plant value at the time of purchase of Fairmont Resort on April 1, 1990. MCC contended that the cost of the original plant could not be determined so should be removed from rate base. Fairmont stated that the water system was placed in public service on April 1, 1990 and has a 15 year useful life. FHA commented that the water system in use at Fairmont came into service an indeterminate time before April 1990, at least before May 1979, and in some estimates as early as 1973. MCC stated that because the original cost of the system cannot be supported, that the water system placed in service on April 1, 1990 be removed from rate base. Fairmont supplied engineering

estimates from 1969 for the construction of the water system. The estimates are reasonably close to what Fairmont is contending is the cost of the system and supports the contention by FHA that the system has been in use since the early 1970's. The Commission agrees that the system was put into service well before April 1, 1990 and that the original cost has not been determined. Based on the life of the asset in the depreciation schedule, the asset is fully depreciated. The water system balance of $174,708.00 and corresponding accumulated depreciation will not be included in rate base for rate making purposes. The depreciation expense will not be included in the requested revenue requirement. Prudently incurred prospective investment, including replacement of pre-1990 plant, will be included in rate base in future applications.

44. Fairmont included in plant, a backhoe placed in service on September 15, 1995, with an estimated life of 10 years. FHA and FECA both state that the backhoe is used for other purposes than servicing the water system. Fairmont agreed that the backhoe is available for other resort uses, but is primarily for use by the water system. Fairmont also stated that there is no reimbursement mechanism in place for backhoe usage by other than the water utility, and that no records are kept for usage or maintenance. Fairmont did provide an estimate for time on various jobs, but again no records. FHA and FECA commented that though the backhoe should be removed from rate base, a reimbursement mechanism should be in place for usage by the water utility. Fairmont did not include the backhoe in its previous rate filing. The request by Fairmont to include the backhoe in rate base is disallowed. The backhoe value of $17,500 and corresponding accumulated depreciation will not be included in rate base for rate making purposes. The depreciation expense will not be included in the requested revenue requirement. The Commission will include an allowance for expenses associated with the backhoe in Fairmont's revenue requirement. *See ¶ 55, infra.*

45. Fairmont included in Utility Plant Accounts, a pickup placed in service April 15, 2000 with a value of $10,662 and an estimated life of 5 years. In response to FHA, Fairmont stated that the pickup is used for both utility and non-utility functions and to keep in mind that the utility could not function without a vehicle. Fairmont

also stated that there is no reimbursement mechanism in place for use of the pickup for non-utility purposes. Fairmont stated it does not keep record of the miles of operation for the pickup or any other vehicle. Fairmont did not include the pickup in its previous rate filing. The request by Fairmont to include the pickup in computation of the rate base is disallowed. The pickup value of $10,662 and corresponding depreciation will not be included in rate base for rate making purposes. The associated depreciation expense will not be included in the requested revenue requirement for Fairmont. The Commission will include an allowance for expenses associated with the pickup in Fairmont's revenue requirement. *See ¶ 55, infra.*

46. There were two errors in accumulated depreciation in the filing that Fairmont concurred with. A pump that should have been fully depreciated at $2,792.43 was shown with depreciation of $2,866.90, a decrease in accumulated depreciation of $74.47. The other was an adjustment to increase accumulated depreciation for water meters of $2,792.

47. The utility plant after adjustments, prior to accumulated depreciation is $185,829, with accumulated depreciation of $86,336, giving a net rate base after depreciation of $99,493. The total rate base is $120,002 including net utility plant, working cash of $10,115, and unamortized rate case expense of $10,394.

**Revenue Requirement**

48. Fairmont in its filing has requested revenues of $136,932 with a net income of $15,310. MCC, FHA, and FECA all suggested adjustments to Fairmont's proposed revenue requirement.

49. MCC proposed a decrease of $1,150 in purchased power expense due to a refinement in the estimated future cost of power. Fairmont agreed with the reduction.

50. Fairmont included a $2,000 pump expense citing power fluctuations are causing the pumps to have an indeterminate life span. Fairmont stated that it is contemplating replacing a pump every three years. Presently the pumps are capitalized with various depreciable lives ranging from 3 years to 15 years. FECA and FHA took issue with the allocation of $2,000 per year for pump replacement. The Commission finds no basis for estimating pump replacement expenses in lieu of

capitalizing and depreciating the capital asset. The increase in pump expense of $2,000 is disallowed and not included in the revenue requirements for Fairmont. If Fairmont places a new pump in service within a short time of the effective date of this decision, the Commission will consider a single-issue rate filing to provide for recovery of the appropriate cost thereof.

51. Fairmont took issue with FECA's comment that there may be a "perverse incentive" for the utility to ignore the underlying surge problem because it can still recover the pump expense. Fairmont Resorts will be paying the majority of the costs associated with the operation of the utility. Fairmont Resorts will be bearing the majority of the costs of pump replacement as the primary user of utility. The primary customer that Fairmont will be recovering costs from is itself. Consequently, the Commission finds FECA's argument untenable.

52. Fairmont proposed a tool expense of $500 per year. FHA commented that the tool expense was unreasonable. MCC commented that the tool expense was reasonable. Tools are very expensive, especially if specialty tools are taken into consideration. The Commission agrees with Fairmont and MCC and will allow a tool expense of $500 to be included in the revenue requirement computation.

53. Fairmont proposed an Office Space and Expense of $8,400. Fairmont based this number on comparable office rentals. MCC, FHA and FECA all commented that the office expense should be disallowed. Fairmont rebutted with a lease agreement for a massage studio that rents from the resort showing a $5,400 per year expense. Fairmont stated that if the Resort was its only customer the utility would not incur office space expense. Fairmont also stated that the office space expense is incurred to process customer bills for the other utility customers and to administer PSC activities, and to deny any recovery transfers the entire cost to the resort. The Commission is sympathetic to the arguments presented by Fairmont, but believes trying to shift the cost of a full time office to water customers is inappropriate. The Commission can justify a part time office expense and office equipment usage. An annual office expense of $1,350 is appropriate, which is one-fourth of the annual rent for Fairmont's massage studio. The Commission recognizes that an additional office expense may be recoverable in Fairmont's rates and charges for sewer service.

54. Fairmont proposed an insurance expense of $6,467. Updated information indicates that cost has risen to $16,445. MCC included this increased insurance cost as a known and measurable change. The Commission agrees with the new cost of insurance for revenue requirements.

55. Fairmont proposed $500 for outside services. There were no objections from intervening parties. However, FECA and FHA both commented that the backhoe and pickup should be removed from rate base, and a reimbursement mechanism be in place when the water utility uses the equipment. The Commission disallowed both the pickup and the backhoe from rate base (*see ¶¶ 44-45, supra),* but realizes that some compensation is due the resort for the use of the equipment by the utility. The Commission will allow an equivalent of one-half the depreciation of the backhoe ($875) and pickup ($1,066) items as an outside service expense. This increases the expense outside service to $2,441. Although in this case, the Commission has allowed a recovery of an estimated amount of these expenses, such a practice is not favored. Fairmont is directed to maintain appropriate records to adequately justify the recovery of any expense associated with multi-use assets in the future.

56. Fairmont proposed a Depreciation Expense of $35,210. MCC argued to remove the water system placed into service on April 1, 1990 from rate base. The Commission concurred with the removal from rate base. This reduced the Depreciation Expense by $11,466. *See¶ 43, supra*. FECA and FHA both argued to remove the pickup and backhoe from rate base and provide an alternative funding mechanism for usage of that equipment. In the above paragraph, the Commission has done so. This will reduce the Depreciation Expense by $3,882. There were other adjustments to depreciation that were error corrections totaling $1,299. The adjusted Depreciation expense is $18,563.

57. Fairmont proposed State and Federal Income Tax expense of $4,823. MCC argued that the previous years losses would result in a zero tax liability for the period of this rate case. Fairmont agreed and removed the tax expense from its revenue requirement.

58. The operating income of $12,072 necessitates a Revenue Requirement of $113,943.

**Rate Design**

59. The most contentious issue of this rate case has been the rate design, with all parties suggesting how the rates should be constructed. Fairmont Resort is by far the largest user of water in the system accounting for almost 90 % of the annual water usage.

60. Fairmont offered up a methodology based on Equivalent Dwelling Units (EDU). MCC proposed a methodology used in Mountain Water (Missoula) rate cases and assigned one third of the fixed costs of operating the system to the service charge, and the remaining two thirds to the commodity charge. FECA offered a base/extra-capacity methodology.

61. All parties did agree that the costs associated with the function of billing the customers should be apportioned to the customers based on the number of meters. Presently there are 26 homeowners, 5 chalets, 1 convenience store, 40 condominiums, 2 metered irrigation units for the condominiums, and 6 meters into the resort for a total of 80 meters. All meters will be considered billed on a monthly basis for calculation of the monthly billing charge. The revenue requirement that is associated directly with the billing process is $3,339 per year. The revenue requirement is comprised of $1,989 for office supplies, postage and payroll associated with the billing process and $1,350 for office expense. *See ¶ 53 supra*. This equates to a monthly customer service charge of $3.48 per month per meter, regardless of the size of the meter.

62. Direct variable expenses that is assigned volumetrically totaled $49,880. The amount is comprised of the allowed total of Pumping-Water Treatment Expense of $33,258, and Transmission and Distribution Expense of $16,622. Fairmont in its original filing stated usage at 82,538,984. Fairmont agreed in rebuttal testimony that an error had been made in meter readings which decreased consumption to the 81,713,520. The total volumetric-related costs will include an allocation of fixed capacity costs determined below.

63. The remaining expenses of $60,724 are costs that will vary little unless there is a large fluctuation in water volumes. Such costs may be construed as “fixed

capacity costs" in the short-run. Fairmont contended that these costs among others should be allocated on an EDU methodology, which is a proxy for a 100 % peak capacity allocation. Fairmont also focused upon the risk of under-recovering its revenue requirement if volumes were below the level assumed in its filing—and consequently urged higher fixed monthly charges via the EDU allocation method. MCC recommended splitting these fixed capacity costs one third to service charges and two thirds volumetrically based on the method used by Mountain Water in Missoula and approved by the PSC in several cases. The MCC/MW method recognizes that a system is designed and used to provide or accommodate **both** annual throughput volumes (varying use or volumes throughout the year) and peak demands (or peak period use). FECA's base/extra-capacity recommendation though more complex than the MCC method also recognizes the joint role of average volumetric and peak capacity responsibility to allocate "fixed costs". While no party challenged the 12 month period used for water use, the Commission is concerned that the corrected 81+ million gallons may significantly understate the annual use. For example, the annual use for the 12 months ended 12/31/03 (the latest data in this record) approximates 110 million gallons. Fairmont would realize substantial excess revenues if such volumes were more reflective of normalized water use than the assumed 81 million gallon level. Absent more historic metered data, the Commission will not substitute the higher use level in this case. However, applicant and all parties are alerted to the important issue of appropriate annual sales volumes in future cases.

64. The EDU method suggested by Fairmont is unacceptable for two fundamental reasons: (1) the EDU proxy employs service line size as a proxy for peak capacity (or demand) rather than metered peak period use and (2) allocates 100% of "fixed system costs" to the EDU capacity proxy. First, the Commission finds there is no valid reason to employ an EDU service line size capacity proxy when peak monthly meter data by class is available. By analogy, no electric or gas utility (MDU, NWE, etc.) would propose electric or gas service line size proxy to apportion peak capacity costs—rather peak demands are measured directly with interval meters, demand meters or estimated based on kwh consumption and class load studies. It is the actual system coincident peak period metered use by all customer classes that most

accurately reflects relative peak capacity cost responsibility. In this water case the metered monthly peak water use by class best reflects the relative maximum or peak use by customer class. As shown in Appendix 1, the EDU allocation would result in a capacity responsibility to the resort of about 74.3.% as compared to both annual and peak monthly use of 87.6% and 83.4% respectively. The EDU method fails to reflect reality and would be inequitable. Second, while there is no absolute method for splitting the joint use and costs of the system between peak and volumetric use, the Commission rejects the 100% EDU peak proxy as an unacceptable extreme.

65. Furthermore, in this case the evidence on relative peak monthly water use by class is very similar to relative annual or volumetric use by class. As described in the testimony of MCC witness Buckley p. 6 and shown below, the resort used nearly 83.4% of the water during the peak month of September 2003 as compared to about 87.6% of the annual volumes. Consequently, under the extremes of recognized cost classification methods (100% peak demand to 100% volumetric) the resort would be assigned *no less than 84%* of the fixed capacity costs. To determine whether the peak month (September 2003) was an anomaly, the Commission examined the six highest monthly metered totals, i.e., each month with use greater than 12 million gallons. The resort's relative peak use varied from 79.7% to 96.8% with a median of about 86.7% and an average of 87.7% as shown on Appendix I. The two highest peak months were September and October 2003 for which the resort's peak use averaged about 13.7 million gallons or 87.6% of the 15.7 million gallons.

66. Given that the relative annual use and the relative peak period use are virtually identical it would greatly simplify the rate design and rate structure to allocate all costs, except customer billing and accounting costs, volumetrically. Nevertheless, for this case the Commission will retain the peak period capacity cost allocation distinction in the event that relationship changes in the future. The Commission finds that the "fixed capacity costs" should be allocated 1/3 to a fixed monthly capacity charge and 2/3 to a usage or volumetric capacity charge. The Commission further finds that the average of September and October 2003 peak use is the most reasonable basis to allocate the peak capacity component of the "fixed costs" among classes. Finally, the relative EDU should be used to establish the rate structure per meter

*within classes.* Appendix I provides the underlying calculations reflected in the findings. The following table summarizes the resulting monthly rates:

| Customer | Line Size | Customer Service Charge | Capacity Charge | Total Fixed Charges |
|---|---|---|---|---|
| Homeowner | 26 @ 3/4” | $3.48 ea | $4.68 | $8.16 |
| Chalet | 5 @ 3/4” | $3.48 * 5 | $4.68 * 5 | $40.80 |
| Convenience Store | 1 @ 1” | $3.48 | $8.39 | $11.87 |
| Condominium Complex | 40 @ 3/4"<br>2 @ 2” | $3.48 * 40<br>$3.48 * 2 | $1.02 * 40<br>$7.32* 2 | $194.64 |
| Resort Complex | 2 @ 3”<br>1 @ 4”<br>3 @ 6” | $3.48 * 2<br>$3.48<br>$3.48 * 3 | $93.60 * 2<br>$167.14<br>$374.40 * 3 | $1,498.42 |
| Water consumption charge $0.00110585 per gallon | | | | |

**Other Issues**

67. When asked by MCC, Fairmont stated that it owned the curb cocks and boxes. This was not contested by any of the parties. The tariffs proposed by Fairmont stated that when the customer fails to properly maintain the curb cock and box and it becomes necessary for Fairmont to shut off the water at the main, the entire cost of time and materials will be charged to the customer. Fairmont owns the curb cock and box. It is Fairmont’s responsibility to maintain the curb cocks and boxes. Proposed Special Term and Condition No. 12 is to be removed from the tariff.

**Conclusions of Law**

68. Fairmont provides public water service within the state of Montana, and as such is a "public utility" within the meaning of § 69-3-101, MCA

69. The Montana Public Service Commission properly exercises jurisdiction over Fairmont's rates and charges pursuant to Title 69, Chapter 3, MCA.

## Order

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

70. Fairmont shall implement rates designed to allow an annual jurisdictional revenue amount of $113,943.

71. The rates shall be designed as outlined in the Commission Analysis in this order.

72. Fairmont shall adhere to and abide by all Commission Analysis in this order. All rate schedules shall comply with all Commission determinations set forth in this Order.

73. Fairmont must file tariffs in compliance with the Commission Analysis in this Order.

74. This Order is effective for service rendered on and after September 1, 2004.

DONE IN OPEN SESSION at Helena, Montana on this 10th day of August, 2004 by a vote of 5 to 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

_____
BOB ROWE, Chairman

_____
THOMAS J. SCHNEIDER, Vice Chairman

_____
MATT BRAINARD, Commissioner

_____
GREG JERGESON, Commissioner

_____
JAY STOVALL, Commissioner

ATTEST:

Connie Jones
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.

'ENDIX 1

# Fairmont Water Revenue Requirement

| | Proposed | MCC Adjustment | FHA Adjustment | FECA Adjustment | Fairmont Rebuttal | PSC | Adjusted | Variable Costs | Fixed Costs | Allocation Method |
|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUE** | 136,932 | | | | | | 113,943 | | | |
| | | | | | | | | | | |
| **JMPING-WATER TREATMENT** | | | | | | | | | | |
| Purchased Power | 31,653 | (1,150) | | | | | 30,503 | 30,503 | | Volumetric |
| Chlorine | 310 | | | | | | 310 | 310 | | Volumetric |
| Water Testing | 2,445 | | | | | | 2,445 | 2,445 | | Volumetric |
| Pump Expense | 2,000 | | (2,000) | agrees | disagrees | | - | | | |
| | | | | | | | | | | |
| **TRANSMISSION & DISTRIBUTION** | | | | | | | | | | |
| Storage Facility Expense | 150 | | | | | | 150 | 150 | | Volumetric |
| Trans & Dist Line Expense | 4,051 | | | | | | 4,051 | 4,051 | | Volumetric |
| Hydrant Maintenance | 200 | | | | | | 200 | 200 | | Volumetric |
| Certified Operator Training | 441 | | | | | | 441 | 441 | | Volumetric |
| Supplies | 752 | | | | | | 752 | 752 | | Volumetric |
| Tools | 500 | - | (500) | | | | 500 | 500 | | Volumetric |
| Payroll | 10,528 | | | | | | 10,528 | 10,528 | | Volumetric |
| | | | | | | | | | | |
| **CUSTOMER ACCOUNTS & SERVICE** | | | | | | | | | | |
| Postage | 143 | | | | | | 143 | | 143 | Bills |
| Office Supplies | 355 | | | | | | 355 | | 355 | Bills |
| | | | | | | | | | | |
| Office Space and Expenses | 8,400 | (8,400) | agrees | agrees | 5,400 | 1350 | 1,350 | | 1,350 | Bills |
| Payroll | 1,491 | | | | | | 1,491 | | 1,491 | Bills |
| | | | | | | | | | | |
| **ADMIN & GENERAL** | | | | | | | | | | |
| Officer Salaries | 1,200 | | | | | | 1,200 | | 1,200 | Fixed |

'ENDIX 1

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Payroll | 1,881 | | | | | | 1,881 | | 1,881 | Fixed |
| Insurance | 6,467 | 9,978 | | | | | 16,445 | | 16,445 | Fixed |
| | | | | | | | | | | |
| Outside Services | 500 | | | | | 2,441 | 2,441 | | 2,441 | Fixed |
| Company Rate Case Expense | 5,197 | | | | | | 5,197 | | 5,197 | Fixed |
| | - | | | | | | - | | | Fixed |
| **Total** | 78,664 | 428 | | | | | 80,383 | | | |
| | | | | | | | | | | |
| **TAXES OTHER THAN INCOME** | | | | | | | | | | |
| Property Taxes | 2,391 | | | | | | 2,391 | | 2,391 | Fixed |
| PSC Tax | 411 | | | | | | 411 | | 411 | Fixed |
| MCC Tax | 123 | | | | | | 123 | | 123 | Fixed |
| DHES PWSP | - | | | | | | - | | - | Fixed |
| | | | | | | | | | | |
| Depreciation | 35,210 | (12,765) | (3,882) | agrees | 11,466 | | 18,563 | | 18,563 | Fixed |
| | | | | | | | | | | Fixed |
| State Income Taxes | 1,570 | (1,570) | | | agrees | | - | - | | Fixed |
| Federal Income Tax | 3,253 | (3,253) | | | agrees | | - | - | | Fixed |
| | | | | | | | | | | |
| **NET OPERATING INCOME** | 15,310 | | | | | | 12,072 | | 12,072 | Fixed |

| | | | | |
|---|---|---|---|---|
| Rate Base | Total Variable | 49,880 | | |
| | Total Fixed | | 64,063 | |
| | Bills | | 3,339 | |
| | Allocated Fixed | | 60,724 | |
| | Allocation | 40,483 | 20,241 | |
| | Tot Allocated Variable | 90,363 | | 81.70% |
| | Total Allocated Fixed | | 20,241 | 18.30% |
| | | | | 100.00% |

'ENDIX 1

# Fairmont Water Rate Design

| | | | |
|---|---|---|---|
| of Statements Annually | 960 | | |
| tered Gallons | 81,713,520 | | |
| al Variable Costs | $ 90,363 | 0.00110585 | Cost per gallon |
| ed by Bills | $ 3,339 | 3.48 | Monthly Customer Service Charge |
| ocated Fixed | $ 20,241 | | |
| al Revenue Requirement | $ 113,943 | | |

| Equivalent Dwelling Units (EDU) | |
|---|---|
| 3/4" | 1 |
| 1" | 1.79 |
| 2" | 7.14 |
| 3" | 16 |
| 4" | 28.57 |
| 6" | 64 |

| stomer Class | Fixed Cost per Customer Class | Percentage of Fixed Costs by Usage | # of Meter Connects | Size of Meter Connects | Extended EDU | Total EDU by Class | Percent EDU by Class | Annual Capacity Charge per EDU by Usage | Fixed Annual Capacity Charge by Usage | Fixed Monthly Capacity Charge per Billing |
|---|---|---|---|---|---|---|---|---|---|---|
| meowners | $ 1,843 | 9.11% | 26 | 3/4" | 26 | | | | $ 1,462 | $ 4.68 |
| Store | | | 1 | 1" | 1.79 | | | | $ 101 | $ 8.39 |
| alet | | | 5 | 3/4" | 5 | 32.79 | 9.65% | $ 56.22 | $ 281 | $ 4.68 |
| | | | | | | | | | $ 1,843 | |
| ndos | $ 667 | 3.30% | 40 | 3/4" | 40 | | | | $ 492 | $ 1.02 |
| | | | 2 | 2" | 14.28 | 54.28 | 15.98% | $ 12.30 | $ 176 | $ 7.32 |
| | | | | | | | | | $ 667 | |
| sort | $ 17,731 | 87.60% | 2 | 3" | 32 | | | | $ 2,246 | $ 93.60 |
| | | | 1 | 4" | 28.57 | | | | $ 2,006 | $ 167.14 |
| | | | 3 | 6" | 192 | 252.57 | 74.37% | $ 70.20 | $ 13,479 | $ 374.40 |
| TAL | $ 20,241 | 100% | 80 | | 339.64 | 339.64 | 100.00% | | $ 17,731 | |

'ENDIX 1

# Fairmont Water Summary Of Peak Monthly Use
## >12,000,000 Gallons

| ıth -> tomer ss | 2002 July | Percent | 2002 Sept | Percent | 2003 June | Percent | 2003 August | Percent | 2003 September | Percent | 2003 October | Percent | Total Use 6 peak months | Ave 6 Peak Mo gallons | Ave Peak Use % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ıeowners tore let | 1,333,610 | 10.78% | 1,197,590 | 9.59% | 275,260 | 2.26% | 1,849,690 | 14.86% | 1,979,780 | 12.20% | 874,770 | 5.79% | 7,510,700 | 1,251,783 | 9.29% |
| dos | 313,750 | 2.54% | 318,967 | 2.55% | 116,230 | 0.95% | 677,500 | 5.44% | 717,450 | 4.42% | 316,050 | 2.09% | 2,459,947 | 409,991 | 3.04% |
| ort | 10,721,970 | 86.68% | 10,968,097 | 87.85% | 11,789,110 | 96.79% | 9,917,000 | 79.69% | 13,529,750 | 83.38% | 13,927,350 | 92.12% | 70,853,277 | 11,808,880 | 87.66% |
| TAL | 12,369,330 | 100.00% | 12,484,654 | 100.00% | 12,180,600 | 100.00% | 12,444,190 | 100.00% | 16,226,980 | 100.00% | 15,118,170 | 100.00% | 80,823,924 | 13,470,654 | 100.00% |

**PEAK USE SUMMARY**

| | Total Use 2 peak months Sept & Oct 2003 | Ave 2 mo Peak | Ave Peak Use % |
|---|---|---|---|
| Homeowners | 2,854,550 | 1,427,275 | 9.11% |
| Condos | 1,033,500 | 516,750 | 3.30% |
| Resort | 27,457,100 | 13,728,550 | 87.60% |
| | 31,345,150 | 15,672,575 | 100.00% |